



U.S.-EU Trade and Investment Ties: Magnitude and Scope

The United States and the current 27-member European Union (EU) have extensive trade and investment ties that have evolved and deepened with the growth of global supply chains, trade in services, and cross-border investment. They are a dominant economic force globally; in 2019, they jointly accounted for

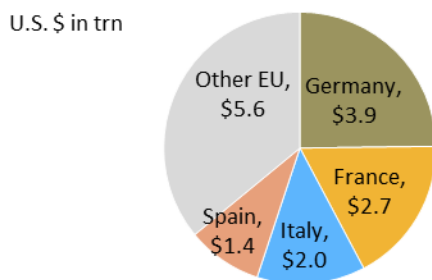
- 26% of world **merchandise exports** and 30% of **merchandise imports**;
- 39% of world **commercial services exports** and 33% of **commercial services imports**; and
- more than half of global outbound and inbound **foreign direct investment (FDI)**.

(Trade data from World Trade Organization, extra-EU trade; FDI data from U.N. Conference on Trade and Development.) Members of Congress have an interest in examining U.S.-EU trade and investment ties, given their magnitude, scope, and implications for U.S. trade policy.

EU Economy

Following Brexit—the UK’s withdrawal from the EU on January 31, 2020—the EU consists of 27 member states that are integrated economically. The EU’s largest economies are Germany (25% of GDP of EU27, see **text box**), France (17%), Italy (13%), and Spain (9%) (see **Figure 1**). The UK formerly was the EU’s second-largest economy (15% of EU28 GDP in 2019). EU member states share a customs union, a single market in which goods, services, people, and capital move freely, and a common external trade policy (negotiated by the EU) with common customs tariff rates that apply to imports across the EU’s external borders. The EU has a common currency used by 19 “Eurozone” members.

Figure 1. EU27 GDP: Composition by Members, 2019



Source: CRS, based on data from the World Bank.

Notes: EU27 gross domestic product (GDP); current U.S. dollars.

At \$15.6 trillion in GDP in 2019, the EU27 accounted for nearly one-fifth of the global economy. The EU economy grew by 1.5% in 2019, and is expected to contract by 7.4% in 2020 as the Coronavirus Disease 2019 (COVID-19) pandemic takes an economic and social toll, before rebounding by 4.1% in 2021 (data from the European Commission, November 2020).

Treatment of UK in EU Trade and Investment Figures

U.S. trade data for the EU from the U.S. Bureau of Economic Analysis (BEA) reflects the EU’s political membership for the reference period, thus excluding the UK from EU data starting with 2020 annual data. This In Focus provides trade and investment data for the EU28 (with the UK) to inform analysis of the U.S.-EU trade relationship historically, and for the EU27 (without the UK) to inform forward-looking analysis of the relationship, such as on potential future U.S.-EU trade talks.

U.S.-EU Trade

The EU was the United States’ largest trading partner in 2019 (see **Figure 2**), representing one-fifth of total U.S. trade. Given the UK economy’s size, Brexit brings changes to U.S.-EU trade and investment ties (see **Figure 3**).

Figure 2. U.S. Goods and Services Trade with Major Trading Partners, 2019

U.S. \$ in bn	U.S. Exports	U.S. Imports	Total
EU28	\$617	\$726	\$1,344
EU27	\$470	\$600	\$1,070
Canada	\$361	\$364	\$725
China	\$164	\$472	\$637
Mexico	\$290	\$394	\$684
Japan	\$125	\$181	\$306
UK	\$148	\$126	\$274

Source: CRS, data from U.S. Bureau of Economic Analysis (BEA).

Notes: Total trade is exports plus imports. Totals may differ due to rounding.

Figure 3. U.S.-European Trade, 2019

	U.S. \$ in bn	U.S. Exports	U.S. Imports	Total	Balance
GOODS	EU28	\$338	\$518	\$856	-\$179
	EU27	\$269	\$454	\$723	-\$185
	UK	\$69	\$64	\$133	\$6
SERVICES	EU28	\$279	\$208	\$487	\$71
	EU27	\$201	\$146	\$347	\$55
	UK	\$78	\$62	\$141	\$16

Source: CRS, data from U.S. Bureau of Economic Analysis (BEA).

Notes: Total trade is exports plus imports. Trade balance is exports minus imports. Totals may differ due to rounding.

Goods. In 2019, for goods, the EU27 was the United States’ largest export market (\$269 billion), and its largest source of imports (\$454 billion), modestly ahead of China as a source of imports (\$452 billion). Germany and France were top U.S. goods trading partners within the EU27 in 2019. The composition of trade changes to some degree without the UK (see **Table 1**).

Table 1. U.S. Trade in Goods with EU, 2019, U.S.\$ bn

	Product (NAICS 4-digit)	EU28	EU27
Top U.S. exports	Aerospace products & parts	46.8	36.5
	Pharmaceuticals & medicines	36.4	32.8
	Oil & gas	25.8	19.8
	Nonferrous (excluding aluminum) & processing	16.0	3.9
	Motor vehicles	13.9	12.7
	Navigational/measuring/medical control instruments	13.8	12.1
	Medical equipment & supplies	13.7	12.7
Top U.S. imports	Pharmaceuticals & medicines	100.5	93.4
	Motor vehicles	42.9	33.2
	Aerospace products & parts	33.7	28.1
	Other general purpose machinery	20.2	17.9
	Navigational/measuring/medical control instruments	18.8	16.5
	Basic chemicals	17.8	16.6

Source: CRS, data from U.S. International Trade Commission.

Notes: Total exports and general imports. NAICS: North American Industry Classification System. Special NAICS categories (9300, 9800, 9900) are excluded.

As highly advanced economies, the United States and EU trade in similar goods within the same industry (known as intra-industry trade). This often consists of trade in components or intermediate goods used to produce complex products such as cars and machinery, allowing firms to specialize and benefit from economies of scale by focusing on different parts of the supply chains. In many cases, intermediate goods are traded across the Atlantic between multinational enterprises (MNEs) and their affiliates (e.g., BMW in Germany trading with BMW in South Carolina).

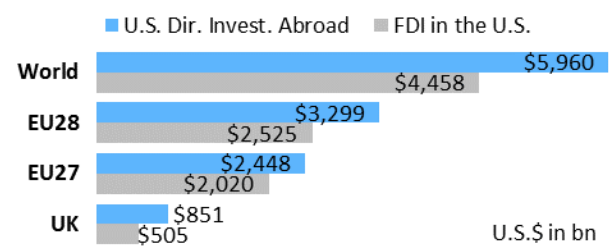
Services. The United States and the EU are the world's two largest and highly integrated services economies. The UK previously accounted for the largest share of U.S.-EU services trade. U.S. services trade with the EU27 bloc, however, remains significant, accounting for about one-third of total U.S. services trade. Ireland and Germany were top U.S. services trade partners within the EU27. Various business services, travel, and charges for intellectual property use led total U.S.-EU27 services trade.

U.S.-EU Foreign Direct Investment (FDI)

U.S.-EU FDI ties are significant in light of their size and interdependent nature. While the UK was significant to these ties, the United States and 27-member EU bloc remained each other's largest FDI sources and destinations in 2019 (see Error! Reference source not found.4). The magnitude of FDI reflects the overall investment-friendly business climates of the United States and EU, and firms' preference to reach customers through local presence. FDI occurs in manufacturing, banking, financial, and other sectors.

In 2019, the largest destinations in the EU27 for U.S. direct investment abroad were the Netherlands (\$861 billion), Luxembourg (\$766 billion), and Ireland (\$355 billion); and the largest sources of FDI in the United States from the EU27 were: the Netherlands (\$487 billion), Germany (\$373

billion), and Luxembourg (\$297 billion) (BEA data, FDI stock on a historical-cost basis).

Figure 4. U.S. Foreign Direct Investment (FDI), 2019

Source: CRS, data from U.S. Bureau of Economic Analysis (BEA).

Note: FDI stock on a historical-cost basis.

In 2018, sales of EU27-based affiliates of U.S. MNEs and sales of U.S.-based affiliates of EU27 MNEs totaled \$3.8 trillion, and these affiliates employed about 6 million workers directly (see **Table 2** for breakdowns). The UK formerly accounted for around one-third of U.S.-EU28 MNE affiliate sales and jobs.

Table 2. U.S. and EU Multinational Enterprises (MNEs): Affiliates' Sales (\$trn) and Jobs (mn), 2018

	U.S. Direct Investment Abroad		FDI in United States	
	Sales	Jobs	Sales	Jobs
World	\$6.7	14.4	\$4.9	7.8
EU28	\$2.7	4.3	\$2.4	4.4
EU27	\$2.0	2.9	\$1.7	3.1
UK	\$0.7	1.5	\$0.7	1.3

Source: CRS, based on data from Bureau of Economic Analysis.

Note: For majority-owned U.S. and EU MNEs.

In 2019, related-party goods trade (between U.S. firms with their subsidiaries abroad, and by U.S. subsidiaries of foreign companies with their parent companies) accounted for 40% of U.S. goods exports to the EU27 and 64% of U.S. goods imports from the EU27; including the UK does not significantly alter these shares (Census Bureau data). In 2018, about one-half of all services supplied by U.S. affiliates to foreign persons was to the EU28, and about one-third of those services were to the UK. EU affiliates in the United States, when including UK affiliates, account for over half of all EU foreign services trade (BEA data).

Issues for Congress

In the 117th Congress, issues that may arise include

- the impact of U.S.-EU trade and investment ties on the U.S. economy and U.S. prosperity overall, and for constituent interests, more specifically;
- the evolution of these ties post-Brexit; and
- the implications of a potential U.S.-EU trade liberalization agreement, or further escalation of tariff frictions, for U.S. commercial and economic interests.

For more information, see CRS In Focus IF11209, *U.S.-EU Trade Agreement Negotiations: Issues and Prospects*.

Shayerah I. Akhtar, Specialist in International Trade and Finance

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.